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APPROVED FOR RELEASE DATE:
07-22-2010

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CPAS NID 85-240JX

15 October 1985

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ITALY:

Impending Government Crisis

Defense Minister Spadolini's boycott of yesterday's inner cabinet meeting suggests the Craxi government may fall over the Achille Lauro affair.

Following a meeting of his Republican Party Directorate yesterday afternoon, Spadolini told the press that he has sent a letter to Prime Minister Craxi criticizing the government's handling of the hijacking and advising him that the Republicans will disassociate themselves from the government's position during Thursday's debate in Parliament over the Achille Lauro. Spadolini stated that he was especially upset over the government's decision to release Abu Abbas and emphasized that neither he nor his party had been consulted.

Spadolini's absence from the special meeting of the inner cabinet would probably signal a government crisis. The Liberals and Social Democrats, junior members in the Craxi coalition, were present at yesterday's meeting but echoed Spadolini's criticisms of the government in their comments to the press.

Comment: Middle East policy has been a particularly sensitive issue within the governing coalition throughout Craxi's administration. A week before the Achille Lauro affair, the governing partners found themselves at odds over Craxi's and Foreign Minister Andreotti's sharp denunciations of Israel for its raid on PLO headquarters in Tunis. The Republicans, Liberals, and Social Democrats argued that Craxi's and Andreotti's statements should have been more evenhanded.

Deputy Prime Minister Forlani will probably take the lead between now and Thursday in trying to smooth over relations with an eye to saving the coalition. Forlani is almost certain to argue that a Republican abandonment of the government would force the other partners to choose among the following unpalatable alternatives: forming a minority government, seeking a deal with the Communists or the neofascist MSI, or asking President Cossiga to convoke early national elections in the spring after the Christian Democratic and Communist Party congresses.

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Jean Gol

Chief of Walloon Liberal Party, big business party closely associated with largest banking, steel, and utility companies . . . popular former Socialist and aggressive champion of Belgium's French-speaking population . . . strongly pro-NATO, will be instrumental in maintaining Belgian support for INF and other US foreign policy initiatives.

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BELGIUM:

Prime Minister's Election Victory

The reelection of Prime Minister Martens's center-right coalition in last Sunday's election will at least temporarily strengthen the hand of pro-NATO politicians in both Belgium and the Netherlands.

The Social Christian-Liberal coalition was expected to remain in office following the election, but a strong showing by Martens's Flemish Social Christians has increased the government's majority by two seats—115 of 212 deputies. The coalition partners will now bargain over a new government program, and the new Cabinet is to take office by early November.

Foreign Minister Tindemans will probably retain his portfolio; Influential Walloon Liberal leader Gob may take the defense slot.

Comment: The coalition's reelection—unprecedented for a Belgian Government after nearly four years in office—is a vote of confidence in Prime Minister Martens. At least for the near term, he will have unusual clout in Belgian politics.

Martens's skill will be tested quickly because of the reemergence of divisive regional issues that may make his new government less stable than its predecessor. Within a month, for example, the government may again face bickering between Flemish and Walloon leaders over decentralizing control of religious education.

The Belgian election result probably finishes INF as an active political issue for Brussels until next year at the earliest, and marginally helps the deployment debate in The Hague. The Belgians may now be able to proceed with the next stages of INF deployment as early as next year, especially if the hard-driving Gob becomes defense minister.

The Netherland's Christian Democrats, who face their INF decision on 1 November, will probably note that a pro-INF stand did not damage Flemish Social Christian prospects. Divisions on INF, however, are deeper in the Netherlands than in Belgium; unlike the Belgians, the Dutch are not scheduled to deploy INF until well after their parliamentary elections, due in May 1986.

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USSR-LIBYA:

Results of Summit

The Soviets rolled out the red carpet for Libyan leader Qadhafi, whose first visit since 1981 ended yesterday, but they apparently gave him little of substance and continue to maintain a certain distance from him.

The two sides signed a long-term program for economic and scientific cooperation, a protocol on "political consultation," and a consular agreement. There was no mention in Soviet or Libyan media coverage of a friendship treaty, an arms deal, or agreements on nuclear power and oil sales—all of which Qadhafi desired.

In the Libyan version of a "joint statement" issued yesterday, both sides condemned US military, economic, and media provocations against Libya. The Soviets expressed their full support for Libya "in all the measures it takes" to defend its independence, land, and territorial waters.

The statement contained no characterization of the talks between Qadhafi and General Secretary Gorbachev and stated the leaders had similar views on most international issues. It condemned the US diversion of the Egyptian airliner as "state terrorism," and it denounced "unilateral capitulatory deals" on the Arab-Israeli question, but it made no mention of the Soviet plan for an international conference on the issue, which Gorbachev had plugged in his dinner speech Friday.

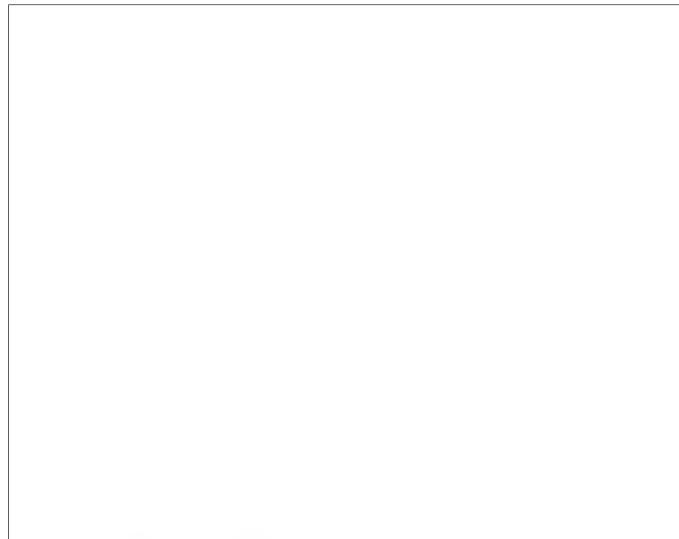
Western and Arab journalists told [redacted] that Gorbachev berated Qadhafi during their private meeting for transferring Soviet arms to Iran. Qadhafi sidestepped questions on the issue and on the absence of a friendship treaty during his solo press conference yesterday. He noted that peace in the Middle East will be impossible to achieve as long as Israel continues to exist.

Comment: The lack of the customary characterization of the talks in the statement suggests the discussions were contentious. Libyan arms shipments to Iran, the Arab-Israeli peace process, and Moscow's unwillingness to extend Qadhafi any security commitments probably were the main areas of differences. Gorbachev's failure to join Qadhafi in the press conference underlined Moscow's desire not to appear too close to the unpredictable Libyan.

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Nikolay Vladimirovich Talyzin

At 56 was youngest of 10 deputy premiers and had held that post since October 1980 . . . as Soviet Permanent Representative to Council for Mutual Economic Assistance, worked closely with Ryzhkov before latter became Premier . . . may be Ryzhkov protege . . . may also have had ties to Andropov . . . satellite communications expert . . . Minister of Communications from 1975 to 1980.

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USSR:

Planning Chief Replaced

The retirement of Nikolay Baybakov, 74, who has headed the USSR State Planning Committee for 20 years, will give General Secretary Gorbachev a freer hand in implementing his economic agenda.

TASS announced Baybakov's retirement yesterday. Replacing him is Nikolay Talyzin, who was simultaneously promoted to the rank of First Deputy Premier, a step higher than his predecessor.

Comment: Baybakov, a Brezhnev-era appointee, was a staunch advocate of strong centralized economic controls and traditional priorities. He may have been involved in high-level controversy over the draft economic plan for 1986-90 and the guidelines for the period up to the year 2000 because his retirement comes on the eve of a Central Committee plenum scheduled to discuss the draft. Former Premier Tikhonov may also have opposed the general thrust of Gorbachev's program; he was replaced the day after a Politburo discussion of the draft plan, and, as Premier, he would have been the speaker to address that subject at the plenum.

Talyzin, the new Gosplan chief, represents a break with the past because of his relative youth and lack of experience in national economic planning. His elevation to the post of First Deputy under Premier Ryzhkov, a Gorbachev ally, indicates he is a member of Gorbachev's team.

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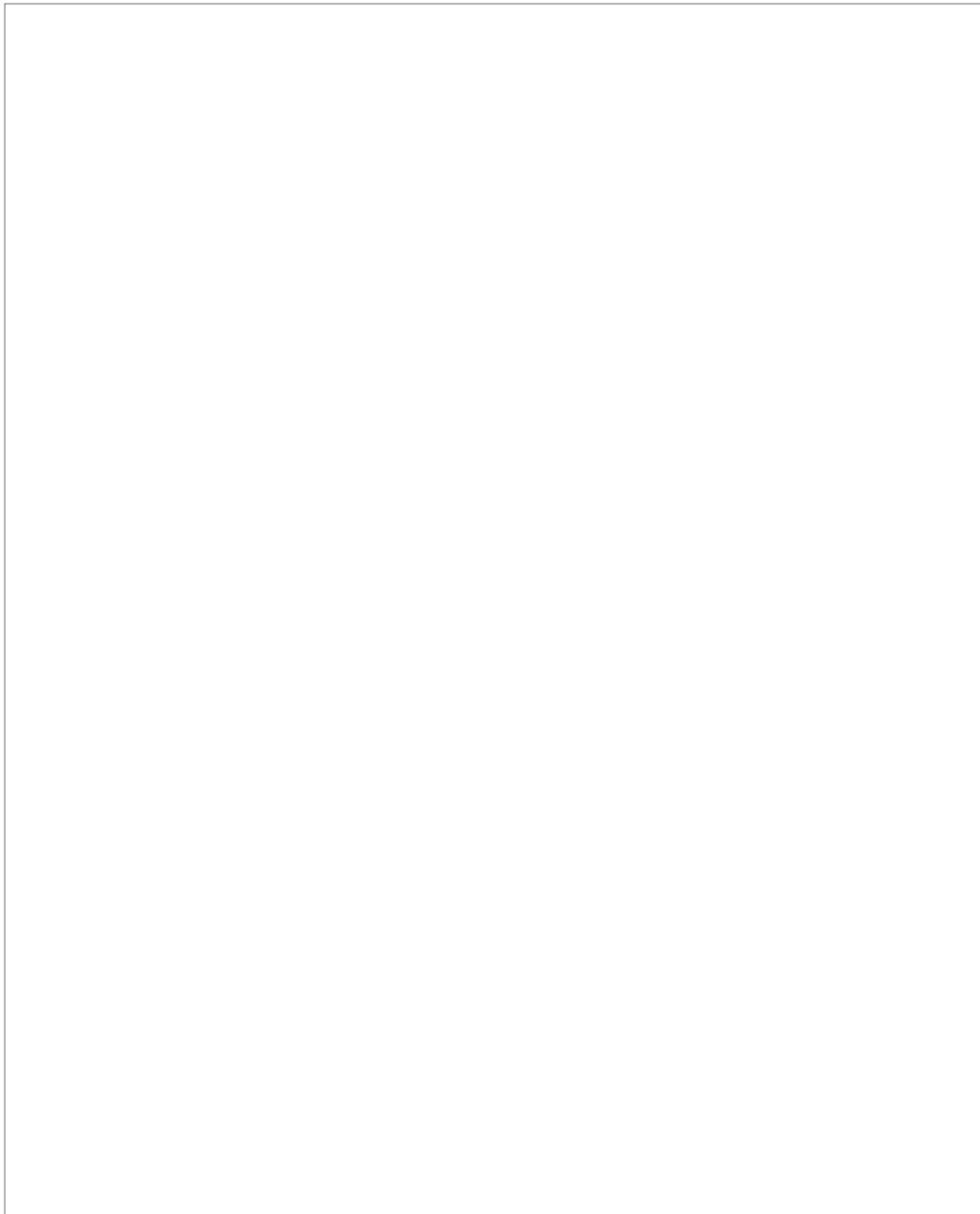


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	<i>Million rubles</i>
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East European-Soviet Trade

	1st Half 1984	Full Year 1984	1st Half 1985
Bulgaria			
Exports	2,823	5,608	2,912
Imports	3,174	6,124	3,156
Balance	-351	-516	-244
Czechoslovakia			
Exports	2,996	6,017	3,246
Imports	3,346	6,591	3,317
Balance	-350	-574	-71
GDR			
Exports	3,772	7,367	3,821
Imports	3,583	7,481	3,710
Balance	189	-114	111
Hungary			
Exports	2,042	4,434	2,280
Imports	2,268	4,321	2,207
Balance	-224	113	73
Poland			
Exports	2,594	5,297	2,611
Imports	2,916	6,069	3,089
Balance	-322	-772	-478
Romania			
Exports	943	1,755	1,083
Imports	952	1,807	889
Balance	-9	-52	194
Total			
Exports	15,168	30,478	15,952
Imports	16,238	32,394	16,368
Balance	-1,070	-1,916	-416

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EASTERN EUROPE- USSR: Narrowing Trade Deficit

A sharp drop in Eastern Europe's trade deficit with the USSR during the first half of 1985 was the result of slower Soviet exports and of Moscow's pressure to balance trade.

The latest Soviet statistics show that the trade deficit in Eastern Europe fell by 60 percent compared with the same period last year. Poland was the only country with a larger deficit; the other five countries collectively registered a small surplus.

Soviet exports picked up slightly in the second quarter after a poor start last winter, but deliveries for the six-month period remained about the same as in the first half of 1984. Exports from Eastern Europe increased only 5 percent. Performance varied widely among countries, but Czechoslovakia, Hungary, and Romania recorded brisk gains in exports

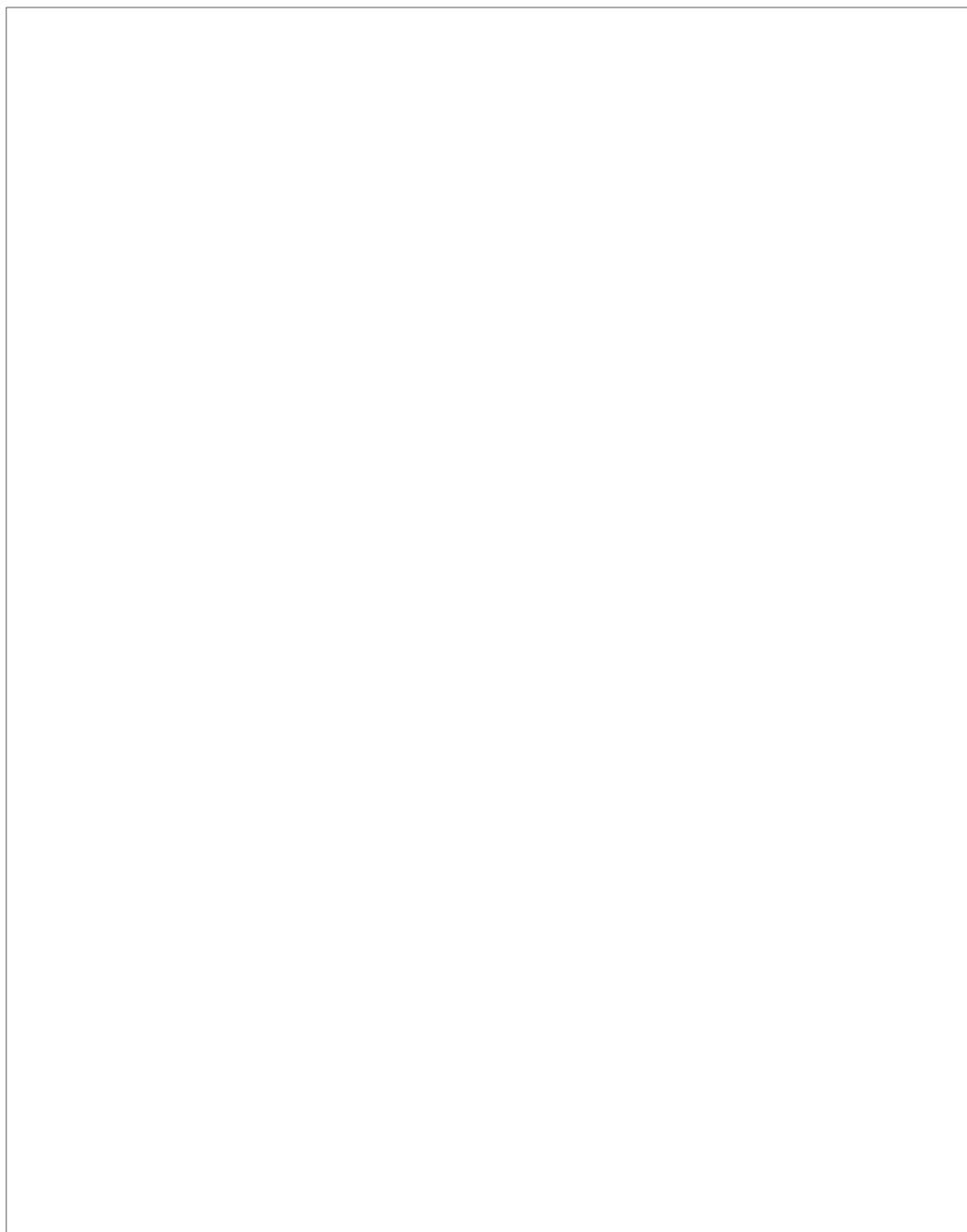
Comment: The decline in the trade deficit—now at its lowest level at midyear since 1976—reflects Soviet efforts to pressure Eastern Europe to increase exports. Although Soviet exports may pick up in the second half, the deficit for the year is almost certain to be much lower than last year's total of 1.9 billion rubles.

The boost in exports to the USSR from Romania, Hungary, and Czechoslovakia coincides with a drop in their exports to the West, suggesting stronger efforts by these countries to comply with Soviet demands. Romania and Hungary, in particular, have diverted agricultural exports to the USSR because of slack demand in Western markets. The rising deficit in Poland reflects special treatment by the Soviets in consideration of Warsaw's economic difficulties. For the other countries, the trade data indicate that Moscow is no longer willing to tolerate carrying large trade imbalances.

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PAKISTAN: Zia's Parliamentary Troubles

President Zia has run into unexpectedly persistent parliamentary opposition to a proposed constitutional reform bill — a prerequisite for the establishment of a civilian government by the end of the year. The bill, introduced last month, would legalize all actions of Zia's eight-year-old martial law regime and grant him immunity from prosecution for actions he took as chief martial law administrator. The Pakistani press announced yesterday that Zia canceled a state visit to West Germany to ensure that the bill was approved before he leaves Saturday for talks in New York with Indian Prime Minister Gandhi and President Reagan.

Comment: The government could easily ram the bill through parliament, but—up to now—Zia has taken pains to maintain an appearance of parliamentary process and already has tried one compromise to make the bill acceptable. Zia, however, does not want to cancel his important talks in New York. Moreover, a protracted debate almost certainly would increase dissatisfaction among the military, already disgruntled at being caught in the middle during the transition to civilian rule, and could result in the military's loss of confidence in Zia. Zia, in turn, is likely to be increasingly concerned about his Prime Minister's ability to manage the future civilian government.

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CHILE: Violent Protests Expected

The main organized labor and university student groups, with the help of several moderate opposition parties and slum neighborhood committees, are planning numerous antiregime demonstrations today in major Chilean cities. They are demanding the release of jailed trade union leaders the government claims were responsible for the violence of the major protests held early last month.

the Communist Party is supporting today's activities but concentrating on plans for a nationwide strike by early November.

Comment: The principal new factors in recent antiregime activities are the emerging unity among student and labor sectors and the willingness of student groups to challenge the security forces in almost daily street clashes. In addition, a variety of labor groups have become more combative throughout the country recently. The Communists, who appear to be gaining greater influence among all these groups, want to persuade the key small businessmen's association and the transportation workers' union to support the strike. If these groups agree to collaborate, the government probably will face a serious challenge in the form of an unprecedented national strike by the first week in November.

LIBERIA: Elections Today

All opposition parties have agreed to participate in today's presidential and legislative elections after last minute negotiations with the Special Election Committee over ballot-counting procedures.

officials of the Liberian Action Party—the leading opposition party—are not satisfied with the compromise and may yet decide not to participate. Numerous measures have been taken to prevent harassment of civilians at the polls, but isolated confrontations are likely, particularly in rural areas where members of Head of State Doe's party will attempt to ensure his victory.

Comment: Doe is determined to stay in power, even if it means rigging the election results. Government efforts to ensure participation by opposition parties probably were designed to improve the election's credibility, lessen the potential for violence, and undermine likely challenges of the election results. A decision by officials of the Liberian Action Party to pull out now is likely to cause more damage to the party than to the elections' credibility. Serious manipulation of results, however, will undermine postelection stability and is likely to provoke strong protests from the opposition that could lead to a violent clash with security officials.

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In Brief

Middle East

— British Foreign Secretary Howe yesterday canceled meeting with PLO representatives . . . said PLO refused to accept communique recognizing Israel's right to exist . . . Foreign Office may try to revive meeting later, but Tory strategists probably relieved.

— PLO chief Arafat unexpectedly visited Khartoum over weekend . . . publicly attacked US for hijacker aircraft interception . . . Sudanese paid lipservice to Palestinian cause, but moving to halt demonstration against US Embassy today.

— Iran's Prime Minister Musavi won vote of confidence in Consultative Assembly Sunday . . . foreordained after Ayatollah Khomeini endorsed his continuation in office . . . Assembly likely to pose problems when Musavi presents cabinet selections.

South Asia

— Zia told Indian press yesterday Pakistan's nuclear program could be made "nonpeaceful" any time . . . response to suggestions by Gandhi that India preserving its nuclear option . . . nuclear issues high on agenda when two meet next week.

East Asia

— Japanese Prime Minister Nakasone agreed to Soviet leader Gorbachev's proposal to resume talks, suspended since 1976 . . . improvement in relations would help Nakasone domestically . . . northern territorial issue will remain obstacle to agreement.

Western Europe

— French Socialists agreed on campaign strategy at congress that ended Sunday . . . will go into opposition if they lose legislative majority in March . . . defeat for moderates who wanted to bargain with other parties to remain in power.

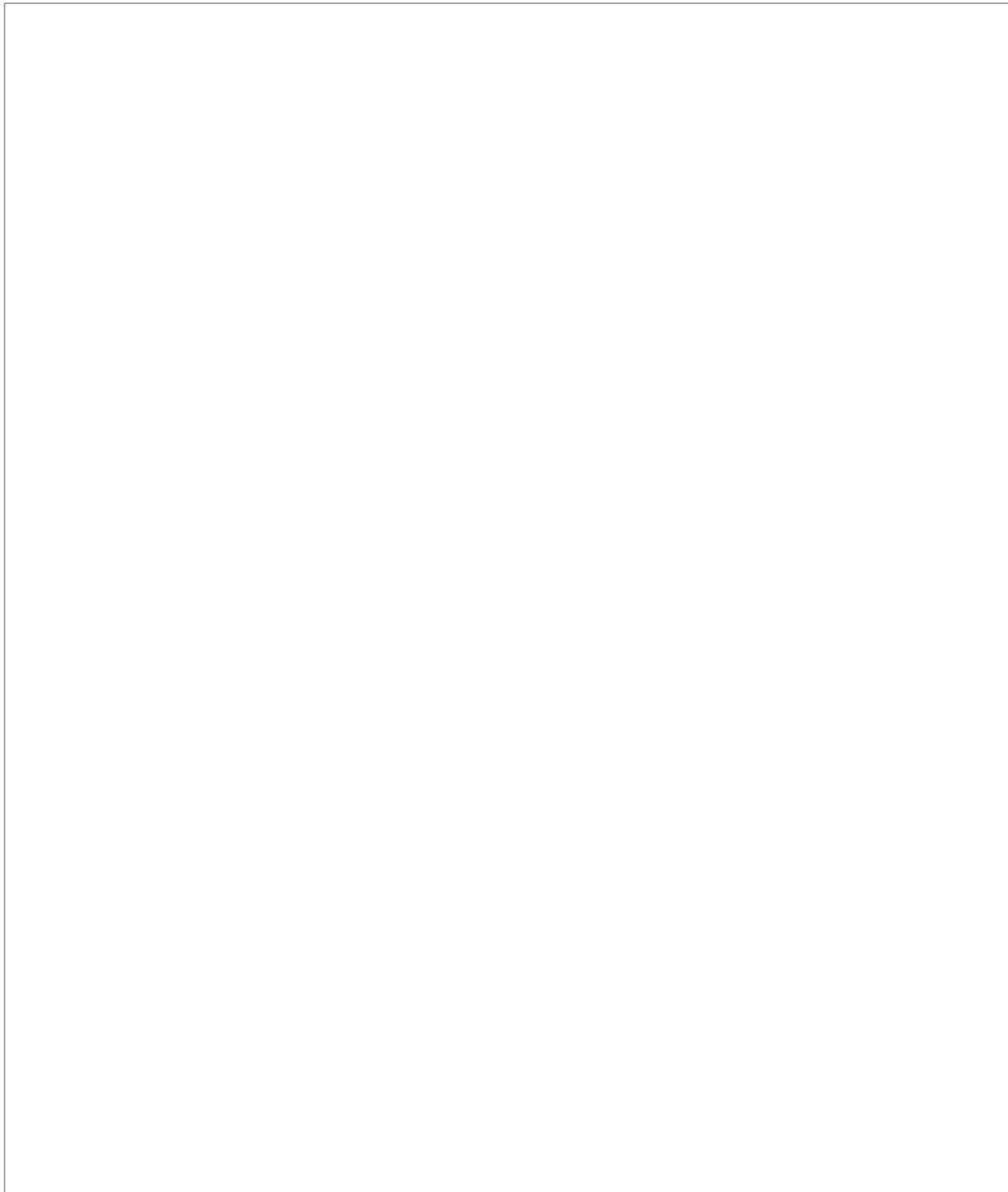
— Former Chief of Spanish Communist Party, Santiago Carrillo, formed breakaway Communist group last week . . . Communists now split three ways . . . reduces leftist pressure on Prime Minister Gonzalez over NATO.

— Sweden's Prime Minister Palme yesterday announced major government shuffle . . . controversial Foreign Minister moved to education . . . highly respected Defense Minister, who wished to serve only one term, also replaced.

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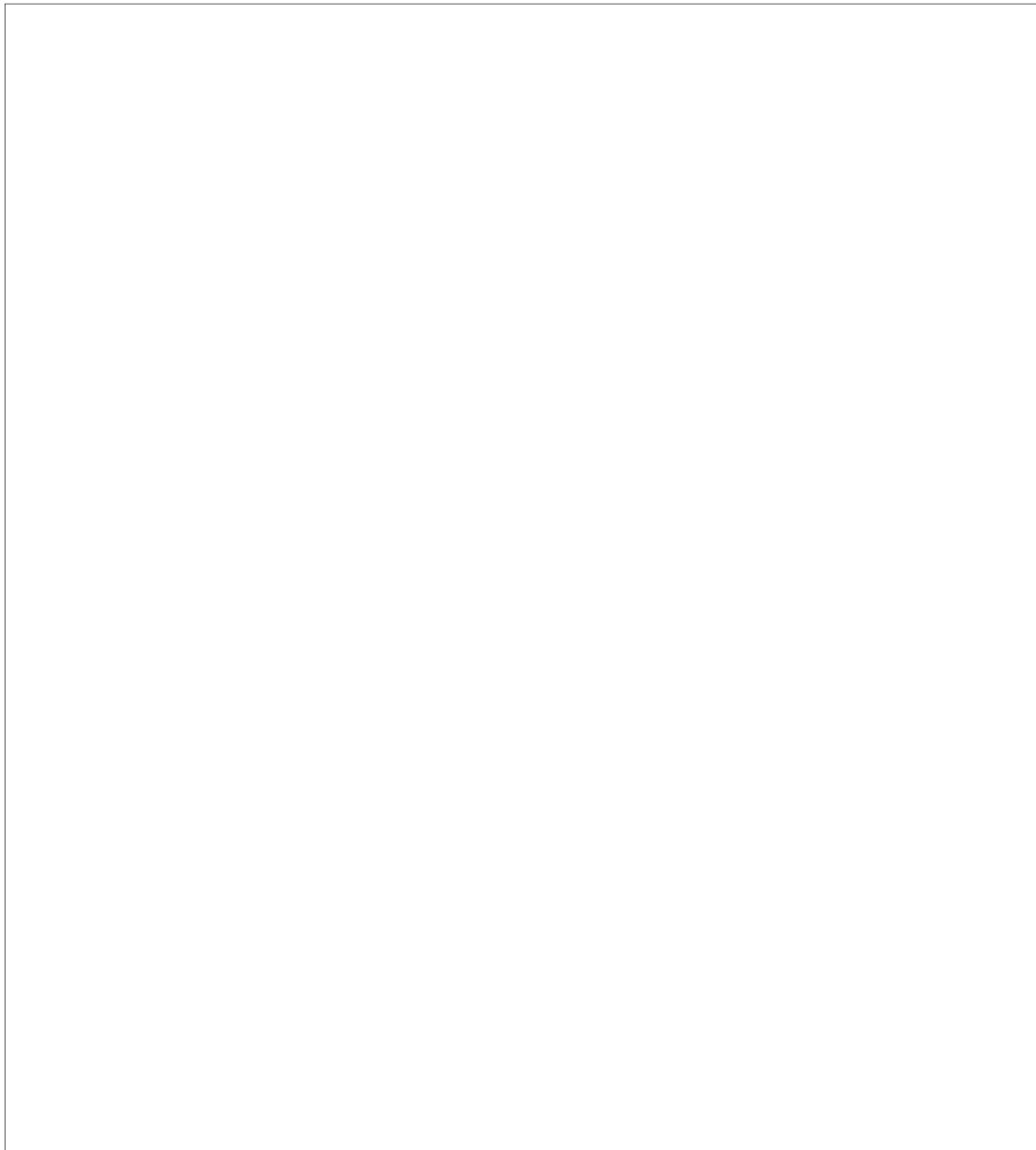


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**Persian Gulf States Relations
With Communist Countries**

	Diplomatic Ties	Military Ties	Soviet-Backed Insurgent Groups
Bahrain	None	None	National Front for the Liberation of Bahrain (about 700 members)
			Popular Front for the Liberation of Bahrain (about 500 members)
Kuwait	Recognizes USSR, PRC, Cuba, East Bloc, and Asian Communist states	1982 arms sale worth \$320 million to purchase military equipment:	People's Union Party (less than 100) Also Marxist-oriented Palestinian groups
Oman	Recognizes PRC, Yugoslavia, Romania, USSR	None	Popular Front for the Liberation of Oman (about 500 members, mostly in South Yemen)
Qatar	None	None	None
Saudi Arabia	None	None	None currently active
UAE	Recognizes PRC, Yugoslavia	None	None known

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Special Analysis

PERSIAN GULF-USSR:

Rethinking Relations

The smaller states of the Persian Gulf appear to be reconsidering their previous policy of keeping distance between themselves and the USSR. Oman recognized Moscow last month, joining Kuwait, which has had relations with the USSR for years. Bahrain and the United Arab Emirates probably will follow suit; they believe better relations with Moscow could contribute to stability in the region and improve the prospects for talks between Israel and Arab states. They also probably hope that normalizing relations with Moscow will buy them added protection from Iran.

Oman's willingness to establish ties to the USSR probably has piqued the interest of the other Gulf states in Moscow. The timing of the move to coincide with the Omani Foreign Minister's visit to the US suggests Oman is signaling that the US takes it too much for granted.

The rise in terrorism this summer, expectation of a retaliatory Iranian attack, and a perception of the US seemingly unconditional support for Israel have combined to encourage Gulf leaders to reconsider opening relations with Moscow. Gulf leaders have

unhappiness with apparent US support for the raid by Israel on PLO offices in Tunis. The Foreign Minister from Bahrain recently contrasted the inability of the US to influence events in the region with the possibility that the Soviets might be able to play a more effective role.

Next Moves

Senior officials of the Persian Gulf states are beginning to balance their ties to the West and that the Soviets might play a useful role in maintaining regional security. Kuwait's Foreign Minister last week urged that Moscow be included in the Arab-Israeli peace process.

Meanwhile, Kuwait's Defense Minister announced last Tuesday that Soviet Defense Minister Sokolov will visit Kuwait in December—although Moscow has not confirmed the visit. Sokolov would be the

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highest ranking Soviet official to go to Kuwait, and it would be his first official visit to the Third World as Defense Minister. Kuwait is the only one of the conservative Gulf states to have purchased Soviet arms; Sokolov probably will discuss additional arms sales.

Oman and Kuwait probably will raise the issue of relations with Moscow at the summit of Gulf Cooperation Council leaders in Muscat next month. Bahrain and the UAE, in particular, are likely to recognize Moscow, possibly in the next few months. Saudi officials are still hinting that the USSR has an important role to play in the region, but they are unlikely to go beyond the current stage of discreet contacts any time soon.

Implications for the US

Leaders in the vulnerable Persian Gulf states do not want to alter their current relationships with the US and will continue to look for reassurances that the US will protect them if Iran attacks. Even so, they believe relations with the US are risky and hope that recognizing Moscow will provide an additional layer of protection from Iran, Syria, the Palestinians, and pro-Communist factions in the Gulf. The Gulf states will continue to have serious differences with Moscow; they will remain suspicious of its intentions in the Persian Gulf and opposed to the Soviets' occupation of Afghanistan and their support for leftist insurgent groups.

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